



S T A T E O F C O N N E C T I C U T
OFFICE OF POLICY AND MANAGEMENT

Date: August 13, 2010

To: All Agency Heads

From: Brenda L. Sisco
Acting Secretary

Re: Budget Options for the FY 2011-2013 Biennium

OVERVIEW

On August 2nd, Governor Rell initiated the process for the FY 2011 – FY 2013 Biennial Budget submission to the General Assembly in February. As outlined in the Governor's letter, there have been slight improvements in the state's economy, job growth and unemployment rate, helping to complete the 2010 fiscal year with a surplus that will be utilized to reduce the amount the state will securitize in FY 2011. Notwithstanding these positive indicators, the fiscal and economic situation facing the state will present extraordinary challenges for the next biennium.

The global economic recession that began three years ago has significantly affected Connecticut and the entire nation. In the past eighteen months, the State has borrowed over \$900 million to close the FY 2009 deficit, and balanced the budget for the FY 2009 - 2011 biennium only through fully exhausting the \$1.3 billion rainy day fund, relying on approximately \$1.7 billion in federal stimulus funds that will not be available in FY 2012 or 2013, not fully funding pension obligations, and planning to borrow approximately \$700 million for FY 2011. In fiscal years 2009 and 2010 the Governor issued a total of eight rounds of rescissions and multiple deficit mitigation laws were adopted; as a result, agencies implemented substantial programmatic reductions as well as considerable administrative savings—including the impact of the Retirement Incentive Program and reductions in funding in order to cope with historically large budgeted lapses.

Signs of economic recovery have begun to emerge in recent months as revenue receipts have started to turn around, allowing the State to reduce the amount of budgeted borrowing in FY 2011. Still, given the factors noted above, there is little doubt that the current services deficit for the upcoming biennium will be measured in *billions*—not millions—of dollars and will require decisions even more difficult than those that have been implemented to date. Simply put, it is not possible to provide funding for all of the items that will be requested in agency current services budget requests.

In addition, a new Governor will take office in January and will present a budget to the legislature in February. Governor Rell has made clear that it is our responsibility to provide thoughtful and significant reduction proposals so that the incoming Governor has the most complete range of options possible in order to develop a budget that will serve

the citizens of Connecticut. By statute the Office of Policy and Management is required to provide the Governor-elect with a transition budget by November 15th.

In order to meet the statutory transition budget deadline, it is imperative that you complete your work by September 24th. Governor Rell is relying upon your full cooperation in putting forth your best ideas for streamlining operations, prioritizing programs and reducing unnecessary expenditures in your agency.

Reduction Options

In order to ensure that the Governor has a complete set of alternatives for consideration in recommending a budget for the next biennium, agencies are required to submit reduction options totaling **15%** of their FY 2012 current services budget request. Because this target is so significant, every alternative must be considered. (As always, options requiring legislative changes are acceptable; agencies should be prepared to identify relevant statutory changes that would support reduction proposals.) In general, your focus should be on streamlined government: smaller in size, scope and cost. Agencies should begin by identifying core governmental services and the programs necessary to support these. Programs and activities that fall outside of these areas should be given serious consideration in your reduction options review process. Agencies should also look at issues of efficiency and effectiveness during this process. The following questions should guide you as you review every program or service for potential reduction options:

- Are the services provided effective in addressing the program's goals? What are the goals? How do we measure results? Can the agency demonstrate the effectiveness of the program?
- Which services does your agency provide that are outside of its core mission?
- Is there a more efficient way to deliver services? Are there alternative service delivery arrangements that would yield savings? Is there a less expensive service delivery model that could replace a more expensive one?
- Are there certain services that the state can no longer afford to provide?
- Are there duplicative processes, functions, programs, etc. that can be eliminated?
- Are there more efficient or less costly ways to organize?
- Are there any opportunities to change the way in which services are provided in order to allow for the redeployment of staff to other needs?
- Can existing staff be deployed in a more efficient and effective manner that will yield savings, for example through the reduction of overtime or by reducing the need for leased space?
- Can the cost of existing goods and services be reduced?
- Does your agency provide services that are similar to those provided by another agency? Is there an opportunity to streamline service delivery to achieve savings?
- Are duplicate services provided by other levels of government? If both state and municipal resources support a particular function, is there a way to combine those functions to increase efficiency? Are there functions and services provided by the federal government that are duplicated by the state?
- What is the benefit from a particular activity in relation to its cost? For regulatory functions in particular, evaluate the benefits that the public derives from the regulation against both the costs incurred by your agency as well as the costs incurred by the regulated entities.

- Are there sources of funding other than state dollars that can be used to support a particular function? What changes would be necessary in order to maximize the receipt of other funds?

Given the short time frame for developing options, it is strongly recommended that you involve your OPM budget analyst in your internal review process. Also, in preparing reduction option proposals, agencies should again give thought to any potential mergers and program consolidations that might merit consideration. If, in your discussions, areas of potential savings are identified in other state agencies, I ask that you contact Deputy Secretary Michael Cicchetti at 860-418-6501 or Executive Budget Officer Paul Potamianos at 860-418-6272, so that the appropriate budget analyst can follow up as necessary.

Reallocation Options

Reallocation options provide an opportunity for an agency to propose shifting resources between programs in order to address higher priority needs, as well as to realign funding to accounts that more appropriately support particular program activities. These options are “zero-based” in nature. An agency that has identified a need to shift resources between programs or accounts should submit a reallocation option. Reallocating agency resources to offset the potential loss of revenue or federal funds may be considered.

Revenue Options

Agencies are encouraged to submit revenue options where the cost/benefit is clearly beneficial to the state, particularly those options for maximizing current revenue streams. If state expenditures are required in order to receive increased revenue, your submission should provide detailed cost projections in addition to revenue estimates. Please be aware that appropriations made to secure additional revenue still count toward the expenditure cap.

Expansion Options

Given the size of the current services deficit in FY 2012, expansion options are unlikely to be accommodated. There may, however, be issues that deserve consideration, even if funding cannot be provided. As in the past, no expansion options involving either the operating or capital budgets, including the pickup of federal funds, should be submitted unless prior approval of the concept has been received from the Secretary or Deputy Secretary of OPM.

No such requests, which outline the concept of the expansion option, should be submitted to the Secretary until after your agency has complied with the requirement to submit reduction options. If your reduction option submittal is made prior to the deadline of September 24th, you may submit a proposed expansion request, in written form, to the Secretary. All such requests shall be reviewed in relation to the quality of your agency reduction option submittal and the overall condition of the projected state budget. Once approval to submit is obtained, additional information regarding your option submittal will be provided.

Expansion options that will require a capital outlay should be accompanied by a companion capital budget option request. Requests for state match funding to access federal funding for a new or expanded program may be considered under the expansion options process.

SUBMISSION

Agencies are to submit their reduction, re-allocation and revenue option packages to OPM's Budget and Financial Management Division not later than **September 24, 2010**. The submittal should include: one original and two additional hard copies of the Agency Summary and the individual FY 2012 or FY 2013 Requested Options (including backup documentation and proposed legislation). Additionally, agencies are to provide a complete copy of their submission to the Office of Fiscal Analysis. You will be contacted directly regarding the deadline for submitting any approved expansion options.

xc: Fiscal Officers